

AR53



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The Cover



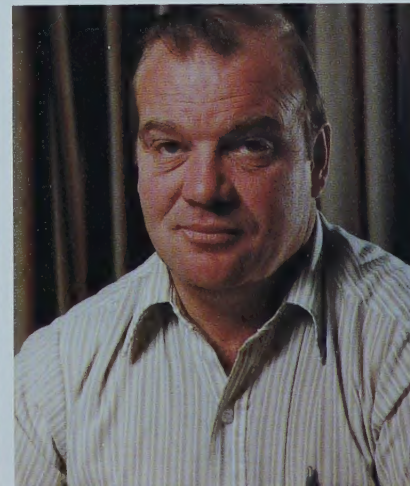
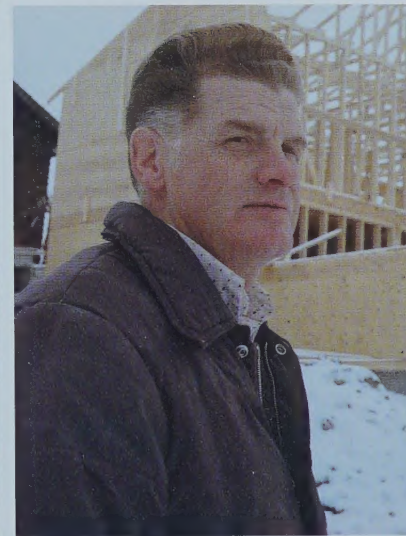
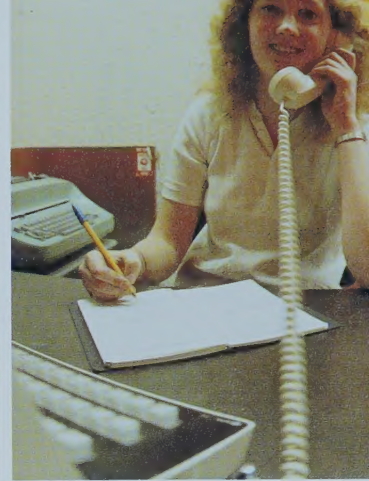
Project planners, on-site crew, and company employees gather for a group photograph during an early stage in the development of Ranchlands in Calgary. Once completed, Melcor people will have been responsible for creating a new community of some 9,000 residents.

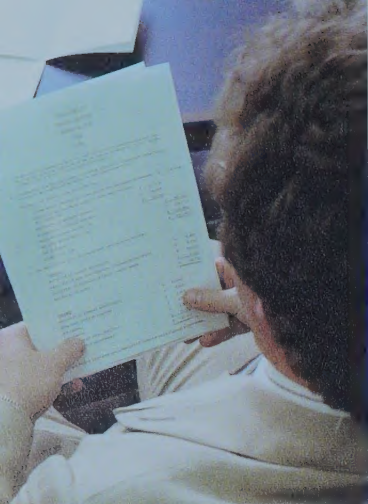
“The year ended December 31, 1979 was another successful year for Melcor and we extend our sincere thanks to our many customers and friends for their continued support and confidence.

This year's report will focus on the “people of Melcor”. We recognize that they are the reason for our success and we look to them to provide the skills and ideas necessary for future growth.”


President







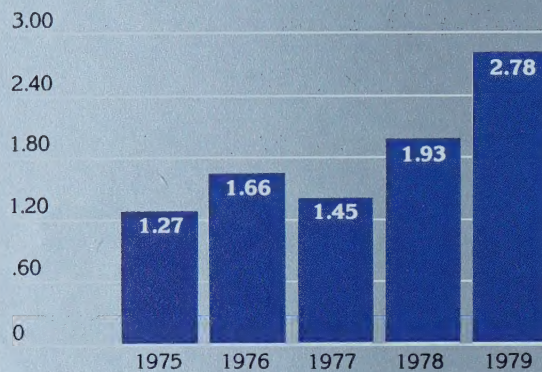
Financial Highlights

Total Assets
Shareholders' Equity
Gross Income
Earnings Per Share
Cash Flow Per Share

	1979	1978
Total Assets	\$134,162,000	\$100,634,000
Shareholders' Equity	31,250,000	25,005,000
Gross Income	56,749,000	34,093,000
Earnings Per Share	2.78	1.93
Cash Flow Per Share	4.57	2.10

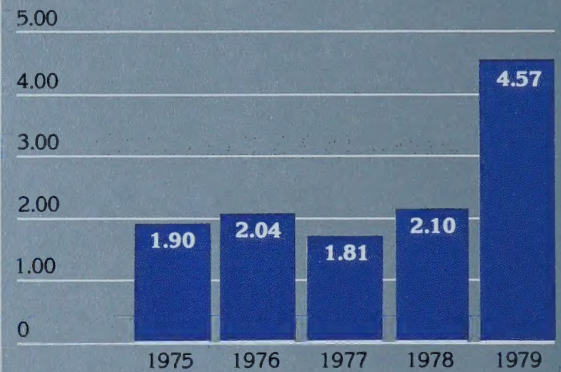
Earnings Per Share — Fully Diluted

In dollars



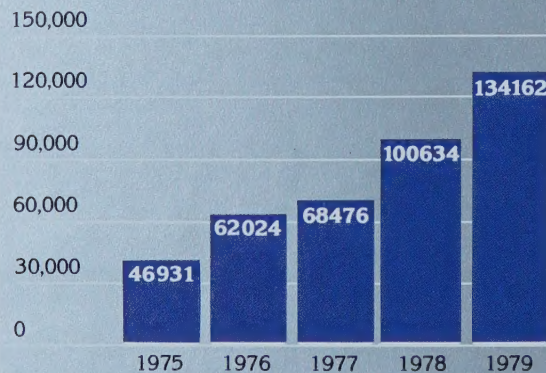
Cash Flow Per Share

In dollars



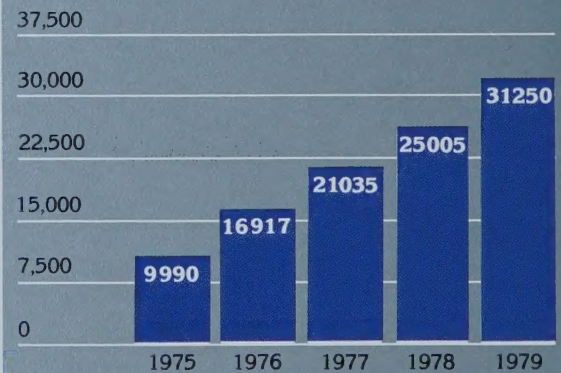
Assets

In thousands of dollars



Shareholders' Equity

In thousands of dollars



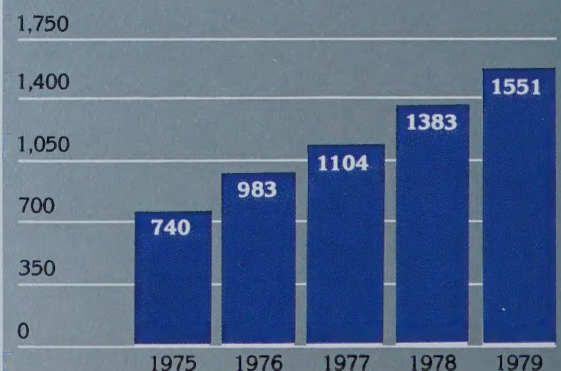
Shareholders' Equity — Per Share

In dollars



Dollar Value of Dividend Payments

In thousands of dollars



Report To Our Shareholders

We are pleased to report that 1979 was another record year for Melcor. Net income, after taxes, from operations was \$7.7 million or \$2.78 per share compared with \$5.3 million or \$1.93 per share earned for the previous year.

Our emphasis continued to focus on the expansion of the company's asset base through selective acquisition of land for future development, and the development of revenue properties for the company portfolio. Assets of the company increased by 34 percent to \$134.1 million.

Shareholders' equity after dividend payments of \$1.5 million increased to \$31.2 million. Our debt equity ratio continues to be conservative in comparison with industry averages.

The value of real estate stocks is affected by many factors, a major one being the market value of the company assets. Based on an evaluation of company assets prepared by management the market value exceeds book value by \$119.8 million at December 31, 1979. After deduction of income taxes at current rates, this unrealized excess of market value over book value would increase the shareholders' equity to \$94.7 million or \$34.20 per share.

For 1980, the directors have approved an increase in the first semi-annual dividend from \$0.28 per share to \$0.35 per share. Payment will be made on June 15, 1980 to shareholders of record at June 1, 1980. This increase in dividends reflects our policy of giving shareholders a fair return based on company earnings.

The second semi-annual dividend will be paid on December 15, 1980 to shareholders of record at December 1, 1980. The amount will be set by the directors later this year.

Although detailed information on all operating divisions is provided in this report, we are submitting the following additional comments.

Our land development division is by far the largest segment of company activities and management has a planned program for the acquisition of raw lands and the development of existing holdings to ensure continued sales and earnings.

In last year's report, we mentioned the opening of a Phoenix office and that we were anticipating land sales in late 1979. A severe

downturn in the U.S. housing industry has caused us to postpone the servicing of residential lots until the market improves. However, our long range plans for increasing our investment in the United States has not changed. In March, 1980 we completed our first land purchase in California with the acquisition of 620 acres in San Bernardino County.

The land division also provides us with excellent commercial and industrial sites. Several of these received development approvals in 1979 and are in the process of being serviced.

During 1979, the investment property division acquired a number of sites for development. Studies and planning are underway for the development of a large office building in the government sector of downtown Edmonton, a comprehensive phased office/commercial development at the intersections of Barlow Trail and Memorial Drive in Calgary, a shopping centre of 110,000 sq. ft. in Spruce Grove, and a 40,000 sq. ft. community shopping centre in Regina.

We are continuing our efforts to develop a larger asset base in this division and to make it a greater contributor to company profits and stability.

Although 1979 was very competitive for the housing industry, Melcor Homes were able to show increased earnings over the previous year. At the present time, high interest rates on residential mortgages are having a severe impact on sales and earnings. Management will continue to interpret consumer demand and time construction starts to meet market conditions. We believe, however, that over the long term Melcor Homes will contribute significantly to the overall successful operations of the company.

As you read this report you will be introduced to some of the Melcor people. Though space does not permit the inclusion of all staff, we appreciate and pay recognition to the contribution of each of our employees.

We operate in some of the better markets in North America, but must recognize that we do not operate independently of other market forces. High interest rates, tight money, inflation and increased unemployment caution us to make conservative projections for 1980.



On behalf of the Board of Directors,

T. C. Melton,
President



Land Development

For the Land Development Division, 1979 was a successful and significant year.

- Sales and income were at an all time high
- Over 1,100 acres were purchased for future development in the Edmonton, Calgary, Red Deer, and Phoenix Regions.
- Major development approvals were obtained including outline plan approval and zoning for a 150 acre commercial employment center featuring a 50 acre regional shopping center in Northwest Calgary.
- Annexation approvals were obtained in Red Deer, Lethbridge and Leduc.
- A regional office was opened in Phoenix, Arizona.
- An appreciation night, recognizing 10 years of development in the communities of Spruce Grove and Leduc, was sponsored by Melcor.

Our regional activities are outlined below.

Edmonton

In West Edmonton, our Summerlea subdivision was well received with 132 lots sold and 44 reserved for our housing division. Builders have commenced construction for summer sales. The balance of 51 lots will be sold in 1980.

In 1979, 232 acres were acquired in an area Northeast of the City of Edmonton proposed for annexation and an additional 130 acres were acquired in the same area in early 1980.

Spruce Grove

The town of Spruce Grove, ten miles West of Edmonton, continues to be popular with builders and homebuyers.

143 lots in Westgrove were sold and sales of the remaining 22 lots are anticipated in 1980. Stage II of this subdivision, containing 108 lots, should be registered later this year. Approvals were obtained for extension of our Highway Commercial development. Major



Top: Aerial view of Spruce Grove, Alberta.
Bottom: Aerial view of holdings in Northwest Calgary.



planning studies are underway for the development of our remaining land holdings in Spruce Grove.

Substantial progress was made in marketing our Yellowhead Business/Industrial park with 28 acres sold, leaving a balance of 11 acres in the first stage.

In 1979, we entered a joint venture and acquired a 50% interest in 150 acres and obtained an option of 31 acres within the Town boundaries for residential development. A further 157 acres adjoining the Town were purchased for industrial development.



Leduc

In Phase V of the South park subdivision, 77 lots were sold and 6 lots were retained for our housing division. The remaining 61 single family and 38 duplex lots will be marketed in 1980.

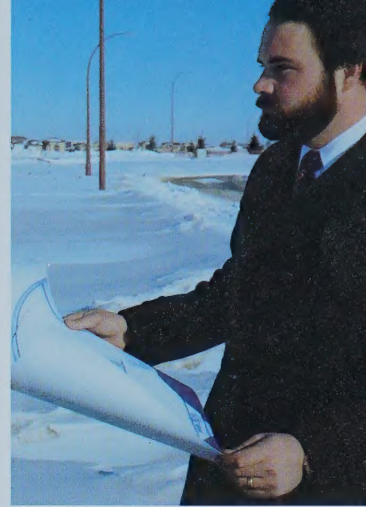
During the past year, 80 acres of land held for future industrial development were annexed by the Town.

County of Strathcona

During 1979, 116 acres of land held for residential development were sold. Approvals have been received and planning is underway on the balance of our 280 acres in Sherwood Park with development expected to commence late in 1980. For future residential development 40 acres were purchased in the Hamlet of Josephburg which adjoins the major petro-chemical complexes of Fort Saskatchewan.

Calgary

In Ranchlands, sales were good with 261 lots sold to builders and 38 lots reserved for our housing division. The remaining 66 lots, together with 134 lots being developed in Stage 3C, will be sold in 1980. Development of the next community, known as Hawkwood, will commence later in 1980.



Top and Bottom: Two photographs of our 620 acre holdings in the Chino Hills area of San Bernardino County, California.



We are still working with the Municipal District of Rockyview to obtain approval from the Calgary Regional Planning Commission for the development of a 683-acre industrial business park at Balzac, just North of Calgary.

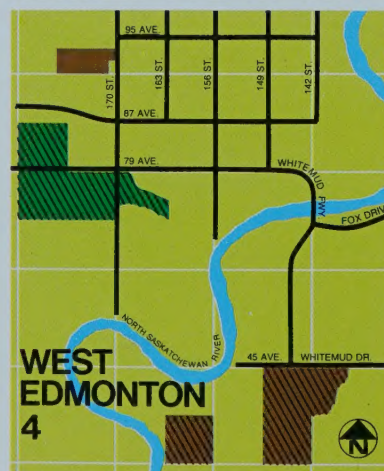
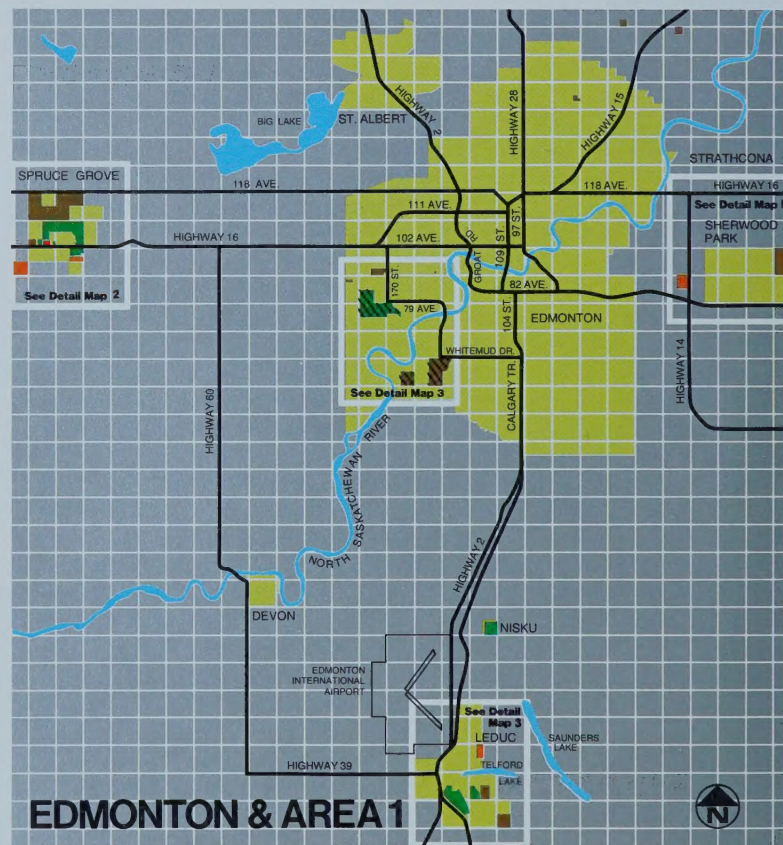
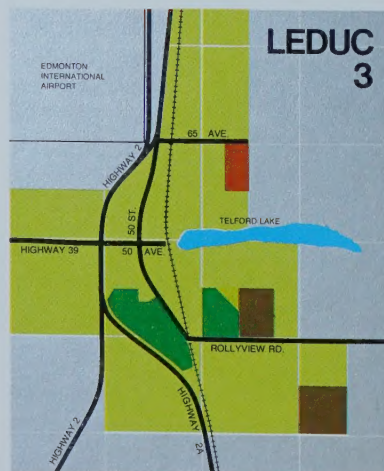
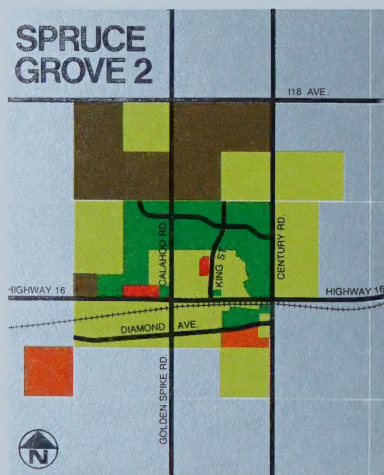
The Crowchild Employment Center, encompassing 150 acres of mixed use commercial and office development was given zoning and outline plan approval. The focus of the development, a 50-acre regional

shopping center, is currently in the planning stages with negotiations underway with major tenants.

Cochrane

During the year, a 50% interest in 506 acres was acquired. While our initial application for annexation was not approved, we anticipate the second application will be successful, since it was made by the Town and supported by the Regional Planning Commission.

- | | |
|---|--|
|  | Land being held for future industrial development. |
|  | Land being held for future commercial development. |
|  | Land being held for future residential and residential land presently under development. |
|  | Developed land. |
|  | Partial interest. |



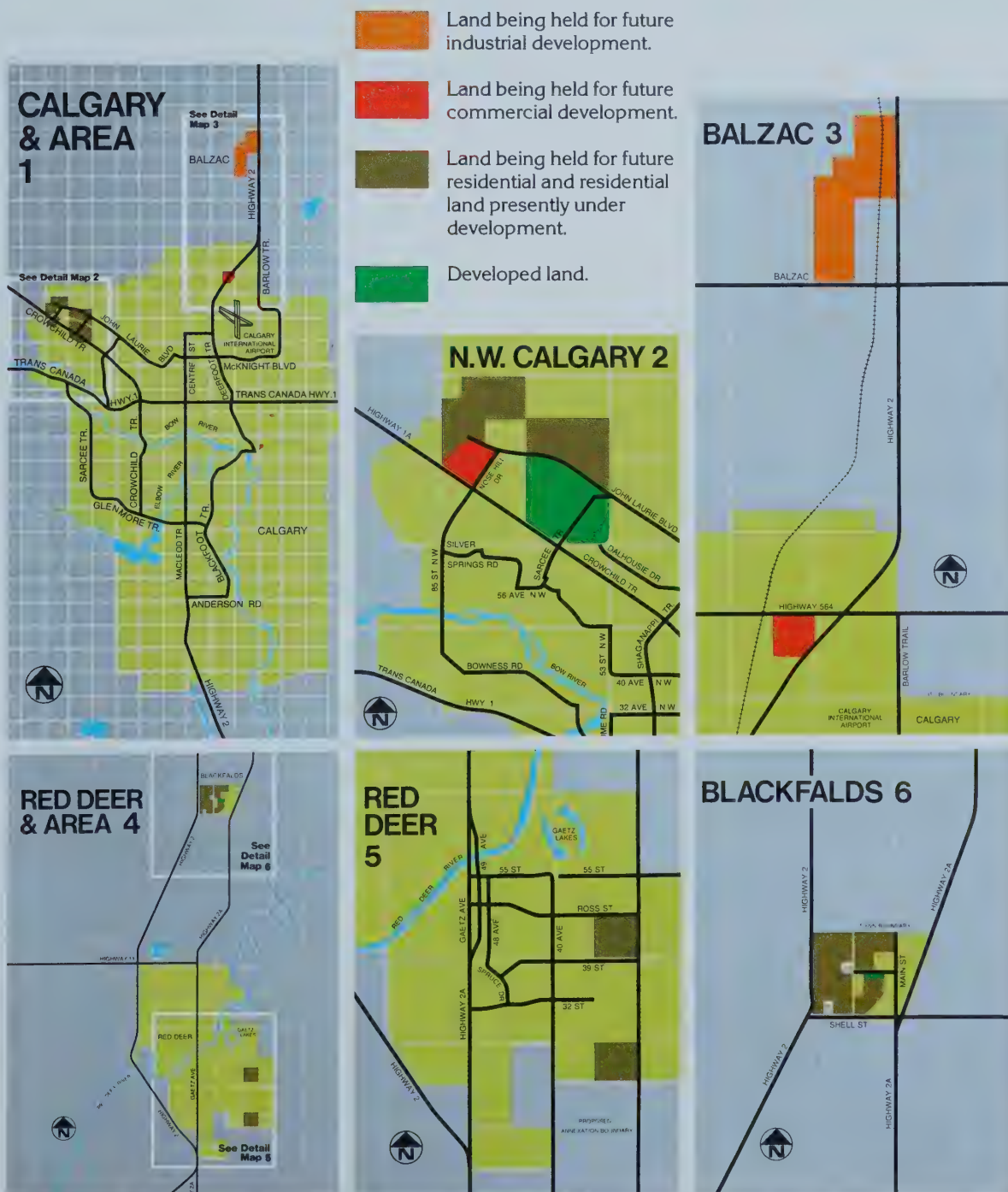
Lethbridge

Early in 1980, we exercised our option to purchase 134 acres which had been annexed by the City. Our holdings of 200 acres are now within the City boundaries and planning for development in 1981 has commenced.

Red Deer

In mid-1979, the annexation of our 139 acres to The City of Red Deer was approved. In Blackfalds, which is five miles North of Red Deer, 149 acres were purchased and an extended option on 275 acres was obtained.

Development is expected to commence in 1980 on a 108-acre joint venture with Cairns Homes Ltd. in Red Deer. We also anticipate starting on the next phase of our development in Blackfalds.





Phoenix

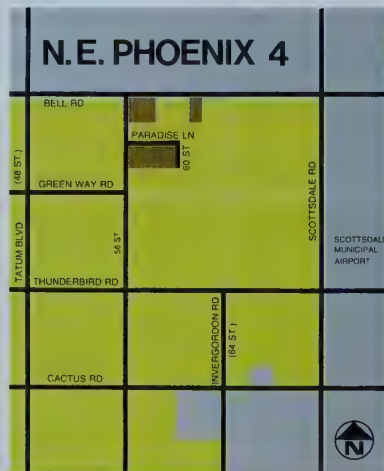
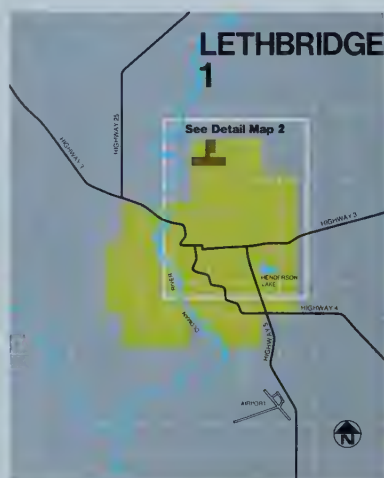
During the year, 170 acres were acquired in The City of Phoenix to bring our total holdings to 542 acres. Zoning approvals have been obtained on all our property and development approvals are now available on 171 single family lots. In addition, development approvals are nearly finalized on a further 304 lots.

High interest rates have severely decreased the demand for housing and servicing of the developments has been deferred until market conditions improve. A Regional office has been established and staffed.

California

In March 1980, we made our first purchase in California, acquiring 620 acres in the Chino Hills area of San Bernardino County for residential development in 1982.

-  Land being held for future industrial development.
-  Land being held for future commercial development.
-  Land being held for future residential and residential land presently under development.
-  Developed land.



Melcor Homes Ltd.

The past year was one of great challenge to the housing industry. Increased construction costs and high interest rates reduced the market for housing. Fortunately, the areas in which we operate, experienced economic activity above the national average. This, combined with the improvements in our designs resulted in a modest profit in 1979 compared with a small loss in 1978.

Sales closed during the year were up slightly to 202 units from 198 in 1978. Housing starts during the year were 203 units — leaving our inventory position unchanged from the previous year.

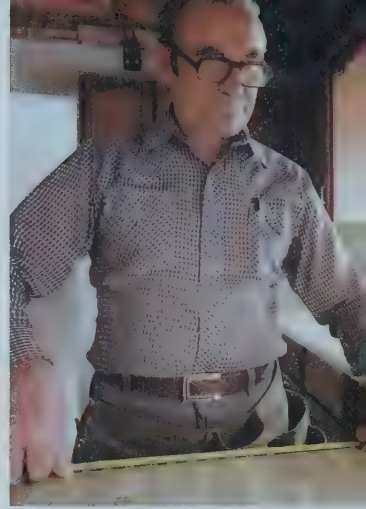
On a regional basis, the Edmonton market suffered from overbuilding. Price reductions and other inducements, were offered to achieve sales, which resulted in unfavourable profit margins.

The Calgary region enjoyed a much stronger market and moved 75 families into Melcor Homes — up from 42 in 1979. This improvement reflects the emphasis on building for equity-buyers in the \$115,000 to \$150,000 range and generated the highest return of all regions.

As predicted in 1978, the Red Deer market remained stable, enabling the region to meet its objectives. These conditions are expected to continue through 1980.

While the Regina market for new homes remains soft, the economic outlook for the Province of Saskatchewan is bright. In the fall of 1979, an office was opened in Saskatoon where the absorption rate for new homes has been favourable. A limited construction program is underway.

It is anticipated that the first six months of 1980 will be very difficult for the housing industry primarily due to high mortgage rates. However, Alberta and Saskatchewan continue to hold promise of satisfactory levels of housing demand for the latter half of 1980.



From upper right and moving clockwise: Cedar signage, flags, fencing and landscaping attracts attention and draws visitors to this Melcor Show Home in Woodvale, Edmonton; A handsome fireplace warms up the Woodvale Show Home; This Melcor home in Red Deer takes maximum advantage of the natural site features; An owned and occupied Melcor home in Wolf Willow, Edmonton.





Investment Properties

The year 1979 was one of growth for the Investment Properties Division.

In the Calgary Region, zoning and outline plan approval was received for the development of a regional shopping centre on a fifty acre site in North West Calgary. Construction is expected to commence within a year.

A 24,000 square foot office building on Kensington Road was completed on schedule in March, 1980 and is substantially leased. It provides an attractive addition to our portfolio of investment properties. Final negotiations are under way for the construction of a unique Auto-Mall project which will be completed in late 1980. With leasing advancing well on the Franklin North industrial development, plans are being prepared to construct an additional 86,000 square feet of office warehouse on that site. Among the other sites held for future development, a 1979 acquisition of 24 acres in Northeast Calgary has a potential for a multi-use development. Planning for the first phase of this development is under way.

In the Edmonton Region, construction was completed in March, 1980 on a strip shopping centre in the Woodhaven area of Spruce Grove. Also in the Spruce Grove area, plans are being finalized for a 110,000 square foot enclosed shopping mall, with construction expected to commence in mid-1980 on this joint venture development.

Acquisitions in 1979 included two sites in the downtown area of Edmonton, and design

work has begun on one of the sites for a large office tower location which has excellent potential for immediate development, and would be a major addition to the property portfolio.

Increased activity has taken place in Regina, where approval was recently received for the construction of a 40,000 square foot neighbourhood shopping centre in the University Park area. Interest in this project has been strong, and completion is anticipated in 1980.

The growing portfolio of operating properties in the Division provides a stable return to the Company, and continued success is anticipated with current and planned developments.



From lower left and moving clockwise: Completed in March 1980, this Calgary office building is already substantially leased; The plan for our Regional Shopping Centre in N.W. Calgary; McNamara West is home to our land and home divisions in Edmonton.



Melcor Developments Ltd. and Subsidiary Companies
Financial Statements For the year ended December 31, 1979

Consolidated Statement of Income
and Retained Earnings

<i>(In Thousands of Dollars)</i>	<u>1979</u>	<u>1978</u>
Revenue		
Land	\$35,366	\$17,252
Housing	17,831	13,667
Investment properties	1,976	1,706
Interest on agreements receivable	1,304	1,133
Other	272	335
	<u>56,749</u>	<u>34,093</u>
Expenses		
Land	20,283	7,383
Housing	16,024	12,500
Investment properties	862	771
Depreciation	135	103
Interest — Note 10	1,504	1,017
General and administrative — Note 11	3,320	2,234
	<u>42,128</u>	<u>24,008</u>
Income before income taxes	<u>14,621</u>	<u>10,085</u>
Income taxes		
Current	1,951	4,402
Deferred	4,914	331
	<u>6,865</u>	<u>4,733</u>
Net income for the year	7,756	5,352
Retained earnings, beginning of the year	22,046	18,078
	29,802	23,430
Dividends	1,551	1,384
Retained earnings, end of the year	<u>\$28,251</u>	<u>\$22,046</u>
Earnings per share	<u>\$2.78</u>	<u>\$1.93</u>

Consolidated Balance Sheet

Assets

(In Thousands of Dollars)

	<u>1979</u>	<u>1978</u>
Agreements and mortgages receivable	\$ 25,900	\$ 10,927
Amounts receivable	755	1,199
Income taxes recoverable	1,166	—
Note receivable	—	1,840
Other assets	422	198
Land for development and sale — Note 2	74,597	67,948
Investment properties — Note 3	31,322	18,522

\$134,162

\$100,634

APPROVED ON BEHALF OF THE BOARD:



T.C. Melton Director



W.G. Holmes Director

Liabilities*(In Thousands of Dollars)*

	<u>1979</u>	<u>1978</u>
Bank indebtedness — Note 4	\$ 28,311	\$ 13,722
Amounts payable	4,684	3,773
Income taxes payable	—	641
Deposit — Note 5	2,300	—
Provision for land development costs	8,032	11,757
Debt on land for development and sale — Note 6	33,097	28,955
Debt on investment properties — Note 7	17,592	12,799
Deferred income taxes — Note 8	8,896	3,982
	<u>102,912</u>	<u>75,629</u>

Shareholders' Equity

Share capital — Note 9	2,999	2,959
Retained earnings	<u>28,251</u>	<u>22,046</u>
	<u>31,250</u>	<u>25,005</u>
	<u>\$134,162</u>	<u>\$100,634</u>

Auditors' Report

To the Shareholders of Melcor Developments Ltd.

We have examined the consolidated balance sheet of Melcor Developments Ltd. as at December 31, 1979 and the consolidated statements of income and retained earnings and source and use of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the source and use of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Willetts Macmahon & Company
Chartered Accountants.

EDMONTON, Alberta, April 14, 1980.

Consolidated Statement of Source and Use of Cash

<i>(In Thousands of Dollars)</i>	<u>1979</u>	<u>1978</u>
Source of Cash		
Operations	\$12,670	\$ 5,569
Agreements and mortgages receivable	—	1,041
Note receivable	1,840	504
Operating and project bank loans	13,940	6,041
Proceeds from debt on land for development and sale and housing	20,447	17,257
Proceeds from debt on investment properties	5,445	5,033
Deposit — Note 5	2,300	—
Share capital	40	2
	<u>56,682</u>	<u>35,447</u>
Use of Cash		
Agreements and mortgages receivable	14,973	—
Land for development and sale, net of the changes in the provision for development costs	11,365	21,256
Investment properties	12,750	6,119
Payments on debt on land for development and sale	15,513	6,197
Payments on debt on investment properties	652	67
Dividends	1,551	1,384
Other	528	244
	<u>57,332</u>	<u>35,267</u>
Increase (decrease) in cash	(650)	180
Bank overdraft, beginning of the year	671	851
Bank overdraft, end of year	<u>\$ 1,321</u>	<u>\$ 671</u>

1 Accounting Policies

(a) General

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(b) Consolidation

The consolidated financial statements include:

- (i) *the accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies as follows:*
- Melcor Homes Ltd.
 - Trans-Canada Mortgage Ltd.
 - Trans-Canada Joint Mortgages Corporation Ltd.
 - Melcor Developments Arizona, Inc.
- (ii) *the accounts of those unincorporated joint ventures in which the company holds at least a 50% interest, to the extent of the company's interest in their respective assets, liabilities, revenues and expenses.*

(c) Land

- (i) *Land for development and sale*

The following costs are capitalized:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in land
- Direct costs such as commissions, legal fees and preliminary engineering costs, not including administrative overhead

- (ii) *Land under development*

The cost of the land is pro-rated to each phase of a project on an acreage basis at the time the company enters into a development agreement with the respective municipality.

The total costs of each phase of a project are allocated to individual lots on the anticipated selling price basis.

The unexpended portion of the estimated servicing costs, shown on the balance sheet as "Provision for land development costs", is recorded as a liability at the time the first sales from the phase are recorded.

Whenever the estimate is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to the cost of the lots in cost of sales and in inventory.

- (iii) *Recognition of income*

The company recognizes income on sale of land when a minimum of 15% of the sale price has been received and the sale is unconditional.

(d) Housing

- (i) *Land*

The following costs are capitalized:

- Real estate taxes
- Interest on debt specifically related to the acquisition of land
- Direct costs such as commissions, legal fees and other carrying costs, not including administrative overhead.

- (ii) *Work in progress*

The following costs are included:

- Cost of land
- Real estate taxes and carrying costs of the land until the house is sold
- Interest on debt specifically related to the land or the construction
- Materials, subcontract costs, direct labour and other direct development costs, not including administrative overhead.

(iii) *Recognition of income*

The company recognizes income on sale of houses when the purchaser is entitled to possession and when the company has received the closing funds.

The company includes, in cost of sales, a provision for the cost of warranties given to the purchasers.

(e) **Investment properties**

(i) *Properties under development*

The following costs are capitalized until a 75% level of occupancy is achieved subject to a reasonable maximum period dependent upon the size of the project:

- Interest on debt specifically related to the development of the property
- Interest on general debt deemed applicable to the investment in the property
- Operating expenses and revenue
- Construction costs and other direct development costs.

Initial leasing costs are capitalized until a 100% level of occupancy is achieved.

(ii) *Properties for development and sale*

The following costs are capitalized:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the property
- Interest on general debt deemed applicable to the investment in the property
- Direct costs such as commissions, legal fees and other carrying costs, not including administrative overhead.

(f) **Depreciation policy**

The company depreciates buildings using a 5% sinking fund method based on an estimated useful life of 50 years (35 years for frame construction). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

(g) **Foreign exchange**

Translation of United States dollars has been made at the following rates of exchange:

- Land at the rate prevailing at the date of acquisition
- Development costs at the average rate for the year
- Other assets and liabilities at the rate prevailing at the date of the balance sheet
- Revenue and expenses at the average rate for the year

The resulting exchange gains or losses are deferred until realized and are included in land for development and sale.

2 Land for development and sale

	1979	1978
<i>(In Thousands of Dollars)</i>		
Land		
Land for development and sale		
Land	\$37,798	\$34,257
Options	78	35
Carrying and pre-development costs	9,230	6,261
	<u>47,106</u>	<u>40,553</u>
Land under development or developed		
Land	2,432	798
Carrying costs	935	395
Development costs	7,995	11,961
	<u>11,362</u>	<u>13,154</u>
	<u>58,468</u>	<u>53,707</u>
Housing		
Land	5,547	6,829
Work in progress	10,582	7,412
	<u>16,129</u>	<u>14,241</u>
	<u>\$74,597</u>	<u>\$67,948</u>

The majority of the land has been acquired by agreement for sale. Title to this land will be obtained when payment on the agreement is made.

3 Investment properties

	1979	1978
<i>(In Thousands of Dollars)</i>		
Operating properties		
Land	\$ 2,008	\$ 979
Buildings and equipment	13,604	7,467
	<u>15,612</u>	<u>8,446</u>
Accumulated depreciation	323	242
	<u>15,289</u>	<u>8,204</u>
Properties under development		
Land	548	1,198
Other costs	4,610	6,974
	<u>5,158</u>	<u>8,172</u>
Properties for development and sale		
Land	9,765	1,883
Options	50	—
Carrying costs	1,060	263
	<u>10,875</u>	<u>2,146</u>
	<u>\$31,322</u>	<u>\$18,522</u>

4 Bank indebtedness

The company has created demand debentures which are pledged to secure amounts owing or which may become owing to its bankers from time to time. These debentures are secured by way of a fixed charge on certain assets of the company. The company's bankers also hold a general assignment of accounts receivable and a floating charge over other assets of the company.

5 Deposit

Conditional upon the completion of a joint venture agreement, the deposit will be the payment for a 50% interest in a parcel of land owned by the company.

6 Debt on land for development and sale

	1979	1978
<i>(In Thousands of Dollars)</i>		
Agreements and mortgages payable on land for development and sale	\$24,541	\$23,363
Agreements payable on land for housing	2,045	939
Agreements payable and mortgage advances on housing work in progress	6,511	4,653
	<u>\$33,097</u>	<u>\$28,955</u>
Principal payments due within the next five years on agreements and mortgages payable on land for development and sale are as follows:		
<i>(In Thousands of Dollars)</i>		
1980		\$ 8,942
1981		3,780
1982		3,331
1983		2,222
1984		2,369
Subsequent		3,897
		<u>\$24,541</u>
Average annual interest rate		<u>8.90%</u>

Principal payments in excess of the amounts due may be made in order to obtain title, if title is required to initiate development of the land.

7 Debt on investment properties

	1979	1978
<i>(In Thousands of Dollars)</i>		
Mortgages payable on operating properties	\$11,057	\$ 5,663
Mortgages payable on properties under development	2,250	6,538
Mortgages and agreements payable on properties for development and sale	4,285	598
	<u>\$17,592</u>	<u>\$12,799</u>

Principal payments due within the next five years on mortgages payable on operating properties are as follows:

<i>(In Thousands of Dollars)</i>		
1980	\$	112
1981		122
1982		476
1983		149
1984		162
Subsequent		10,036
		<u>\$11,057</u>
Average annual interest rate		<u>10.17%</u>

8 Deferred income taxes

On a cumulative basis, income taxes payable have been reduced by \$8,896,000 as a result of the following:

	1979	1978
<i>(In Thousands of Dollars)</i>		
Deferring profits on the sale of land for tax purposes	\$ 4,227	\$1,525
Interest and property taxes on land for development and sale deducted for tax purposes	1,994	805
Depreciation deducted for tax purposes in excess of the amount recorded in the accounts	1,130	844
Interest, property taxes and development costs on investment properties deducted for tax purposes	1,439	775
Other items	106	33
	<u>\$ 8,896</u>	<u>\$ 3,982</u>

9 Share capital

Authorized	3,000,000 shares of no par value	
	Shares	Consideration
Issued		
December 31, 1978	2,767,003	\$2,959,000
Officer and employee stock purchases	3,300	40,000
Dec. 31, 1979	<u>2,770,303</u>	<u>\$2,999,000</u>

Common shares are reserved for issue pursuant to the following:

- 14,000 shares under an option to an officer enabling him to purchase shares at \$9.90 per share to August 7, 1983.
- 2,700 shares under options to senior employees enabling them to purchase 750 shares in 1980, 900 shares in 1981 and 1,050 shares in 1982 at \$12.71 per share.

10 Interest

	1979	1978
<i>(In Thousands of Dollars)</i>		
Interest on bank indebtedness	\$1,781	\$ 899
Interest on debt on land for development and sale	1,689	1,396
Interest on debt on investment properties	1,434	1,004
	<u>4,904</u>	<u>3,299</u>
Less interest capitalized		
Land for development and sale	2,542	1,762
Investment properties under development and for development	858	520
	<u>3,400</u>	<u>2,282</u>
	<u>\$1,504</u>	<u>\$1,017</u>

11 General and administrative expenses

Sources of the general and administrative expenses are as follows:

	1979	1978
<i>(In Thousands of Dollars)</i>		
Land	\$1,139	\$ 563
Housing	1,576	1,186
Investment properties	205	107
Mortgage services	21	9
Corporate	379	369
	<u>\$3,320</u>	<u>\$2,234</u>

12 Contingencies

- (a) The company has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the city of Edmonton at a fixed price substantially less than the present market value.
- (b) The company is contingently liable for the obligations of the unincorporated joint ventures in the amount of \$1,471,000, however, the assets of the joint ventures are available and adequate to satisfy the individual obligations of the joint ventures.

13 Remuneration to directors and officers

Remuneration paid or payable during the year to directors and senior officers of the company and its subsidiaries amounted to \$337,000 (1978 — \$193,000).

14 Comparative figures

Certain 1978 comparative figures have been reclassified to conform with presentation adopted in the current year.

Land and Property Holdings

Land Development

	Map/ Page	Developed Land			Land held for future develop- ment	Approximate date of develop- ment
		Build- ing Lots	Residen- tial Acres	Commer- cial Industrial Acres	Acres	
Edmonton Region	1/6					
Edmonton	4/6	93	11		48	1980-1982
Spruce Grove	2/6	22	15	28	982	1980-1995
Leduc	3/6	99	6	1	320	1980-1985
County of Strathcona	5/6				417	1980-1985
County of Parkland	2/6				157	1983-1985
M.D. of Sturgeon	1/6				232	1990-1995
Calgary Region	1/7					
Calgary	2/7	75	6	3	1028	1980-1988
M.D. Rockyview	3/7				683	1981-1986
Cochrane	—				253	1982-1987
Red Deer Region	4/7					
Red Deer	5/7				199	1981-1985
Blackfalds	6/7				184	1980-1986
Regina	—				70	1981-1985
Lethbridge	1/8				200	1981-1986
Kamloops	—	28	13		111	1982-1985
Phoenix	3/8				542	1980-1983
Other	—	2		3	105	1981-1985
		319	51	35	5531	
Land Under Option						
Edmonton	1/6				175	1980-1986
Blackfalds	6/7				275	1985-1995
		319	51	35	5981	

Investment Properties

Commercial Properties

Kingsway Building, Edmonton	7,000 sq. ft. purchased in 1967
Melton Building, Edmonton	116,700 sq. ft. constructed in 1973
Grove Plaza Shopping Centre, Spruce Grove	41,000 sq. ft. constructed in 1973
Corinthia Park Shopping Centre, Leduc	12,000 sq. ft. constructed in 1975
Airport Road Building, Edmonton	47,000 sq. ft. purchased in 1977
Westcor Building, Edmonton	73,000 sq. ft. constructed in 1978
McNamara West, Edmonton	41,500 sq. ft. constructed in 1978
Franklin Park, Calgary	99,000 sq. ft. constructed in 1978
Albert Street Building, Regina	6,200 sq. ft. constructed in 1979
Woodhaven Centre, Spruce Grove	7,000 sq. ft. completion in 1980
Kensington Road, Calgary	23,800 sq. ft. completion in 1980

Residential Properties

Brookwood Manor, Spruce Grove	24 units constructed in 1973
-------------------------------	------------------------------

Land for Future Development

Calgary

Forest Lawn	1.00 acres, commercial retail
Downtown Central	.37 acres, office
Franklin Park	6.24 acres, office/warehouse
Stampede Drive-In	23.90 acres, office park

Edmonton

Cascade Business Park	7.20 acres, office/warehouse
105 Street	.52 acres, office/retail
108 Street	1.19 acres, office

Spruce Grove

Parkland Centre (50%)	4.25 acres, shopping centre
-----------------------	-----------------------------

Regina

University Park	6.30 acres, shopping centre and multi-family
Victoria Avenue	3.79 acres, commercial/retail
Albert Street	.38 acres, office/retail

Residential Construction

Houses under Construction

Edmonton Region	84 units completion & sale 1980
Calgary	67 units completion & sale 1980
Red Deer	13 units completion & sale 1980
Regina	19 units completion & sale 1980
Saskatoon	9 units completion & sale 1980

192

Residential Lots for Future Development

Edmonton Region	108 construction & sale 1980
Calgary	68 construction & sale 1980
Red Deer	27 construction & sale 1980
Regina	38 construction & sale 1980
Saskatoon	9 construction & sale 1980

250

Financial Review

Because the company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income from operations before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been

allocated are the cost of corporate debt - \$704,000 (1978 - \$473,000) and general corporate expenses (such as audit, public relations and corporate donations, directors' fees and senior management expenses, etc.) The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

Earnings - By Division

(In Thousands of Dollars)

	1979			1978		
	Revenue	Income	%	Revenue	Income	%
Land	\$36,403	15,063	95.2	26,417	13,621	96.6
Housing	17,831	198	1.2	13,667	(36)	(.2)
Investment properties	1,976	88	.6	1,708	219	1.6
Other	492	471	3.0	325	287	2.0
	<u>56,702</u>	<u>15,820</u>	<u>100.0</u>	<u>42,117</u>	<u>14,091</u>	<u>100.0</u>
Elimination of inter-division transactions	<u>47</u>	<u>(35)</u>		<u>(8,024)</u>	<u>(3,178)</u>	
	<u>\$56,749</u>	<u>15,785</u>		<u>34,093</u>	<u>10,913</u>	
Common costs		<u>1,164</u>			<u>828</u>	
		<u>14,621</u>			<u>10,085</u>	
Income taxes		<u>6,865</u>			<u>4,733</u>	
Net income		<u>\$ 7,756</u>			<u>5,352</u>	

Cash Flow From Operations - By Division

(In Thousands of Dollars)

	1979		1978	
	After-Tax Cash Flow	%	After-Tax Cash Flow	%
Land	\$11,939	94.2	5,111	91.7
Housing	189	1.5	(8)	(.1)
Investment properties	1,026	8.1	723	13.0
Other	134	1.1	149	2.7
Common costs	<u>(618)</u>	<u>(4.9)</u>	<u>(406)</u>	<u>(7.3)</u>
Total cash flow from operations	<u>\$12,670</u>	<u>100.0</u>	<u>5,569</u>	<u>100.0</u>

Divisional Operating Review

(In Thousands of Dollars)

Source:

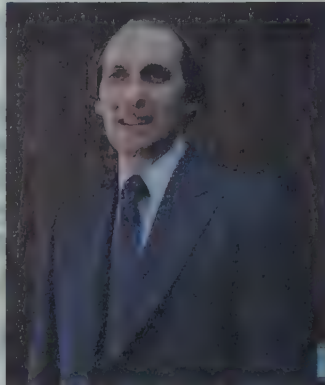
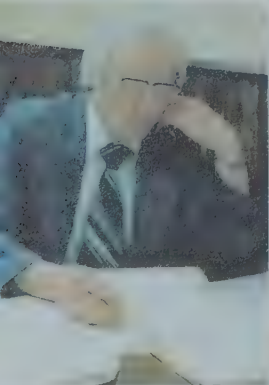
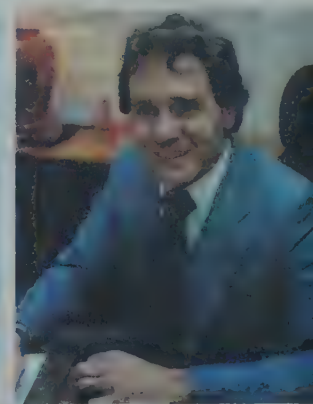
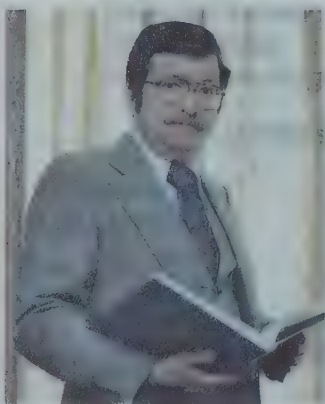
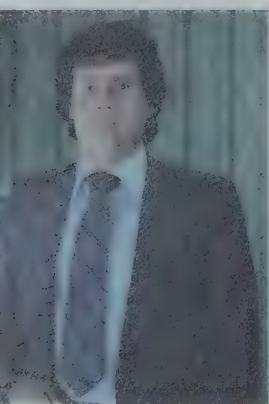
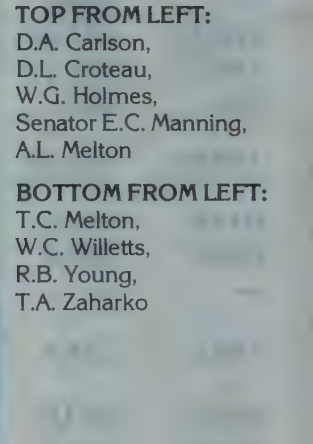
	1979	1978	1977	1976	1975
Land					
Sales	\$34,927	25,048	14,914	13,904	8,948
Cost of sales	20,201	12,233	7,841	6,369	4,834
	14,726	12,815	7,073	7,535	4,114
Interest earned	1,480	1,360	913	624	473
Other income	(3)	9	34	19	7
	16,203	14,184	8,020	8,178	4,594
Administrative expenses	1,140	563	475	389	242
Net income before taxes	\$15,063	13,621	7,545	7,789	4,352
Housing					
Sales	\$17,831	13,667	17,602	11,142	10,764
Cost of sales	16,024	12,517	16,236	9,042	9,220
	1,807	1,150	1,366	2,100	1,544
Administrative expenses	1,609	1,186	1,151	883	520
Net income (loss) before taxes	\$ 198	(36)	215	1,217	1,024
Investment properties					
Rents	\$ 1,976	1,708	1,697	2,109	1,986
Operating expenses	862	770	638	750	857
Interest	742	544	519	677	836
Depreciation	79	68	65	93	138
	1,683	1,382	1,222	1,520	1,831
	293	326	475	589	155
Administrative expenses	205	107	112	93	81
Net operating income	88	219	363	496	74
Gain on sale of properties	—	—	—	625	143
Net income before taxes	\$ 88	219	363	1,121	217

Statistical

	1979	1978	1977	1976	1975
Earnings per share, fully diluted					
- Before extraordinary items	\$2.78	1.93	1.45	1.66	1.27
- For period	2.78	1.93	1.89	2.78	1.30
Shares issued					
- End of year (000's)	2,770	2,767	2,766	2,761	2,500
Shareholders' Equity					
- Per share	11.28	9.04	7.60	6.13	4.00
- Total (000's)	31,250	25,005	21,035	16,917	9,990
Dividends per share	.56	.50	.40	.36	.30
Cash flow per share	4.57	2.01	1.81	2.04	1.90
Share price range	\$16-11 1/8	14 1/4-6 1/2	7 7/8-4 1/4	5 1/4-3 5/8	4-2 1/8

Five Year Review

<i>(In Thousands of Dollars)</i>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
Financial Position					
Agreements receivable	\$ 25,331	10,620	11,528	8,223	6,306
Mortgages	569	307	440	634	933
Amounts receivable	1,921	1,199	660	503	2,766
Note receivable	—	1,840	2,344	2,890	—
Land for development and sale	74,597	67,948	40,844	38,238	23,003
Investment properties	31,322	18,522	12,472	11,256	13,057
Other assets	422	198	188	280	866
Total Assets	<u>\$134,162</u>	<u>100,634</u>	<u>68,476</u>	<u>62,024</u>	<u>46,931</u>
Bank indebtedness	\$ 28,311	13,722	7,860	7,573	5,610
Amounts payable	4,684	4,414	4,074	3,884	5,090
Deposit	2,300	—	—	—	—
Provision for land development costs	8,032	11,757	6,142	4,412	2,087
Debt on land for development and sale	33,097	28,955	17,895	18,019	11,992
Debt on investment properties	17,592	12,799	7,835	7,901	9,153
Debentures	—	—	—	—	104
Deferred income taxes	8,896	3,982	3,635	3,319	2,904
Share capital	2,999	2,959	2,957	2,940	2,393
Retained earnings	28,251	22,046	18,078	13,976	7,598
Total Liabilities and Equity	<u>\$134,162</u>	<u>100,634</u>	<u>68,476</u>	<u>62,024</u>	<u>46,931</u>
Operations					
Revenue					
Land	\$ 35,366	17,252	13,197	12,562	8,667
Housing	17,831	13,667	17,602	11,142	10,764
Investment properties	1,976	1,706	1,647	2,028	1,986
Interest on agreements receivable	1,304	1,133	871	584	498
Other	272	335	459	620	346
	<u>56,749</u>	<u>34,093</u>	<u>33,776</u>	<u>26,936</u>	<u>22,261</u>
Expenses					
Land	20,283	7,383	6,194	5,752	4,074
Housing	16,024	12,500	16,225	9,042	9,221
Investment properties	862	771	638	751	857
Depreciation	135	103	81	106	147
Interest	1,504	1,017	957	1,157	1,224
General and administrative	3,320	2,234	2,148	1,811	1,455
	<u>42,128</u>	<u>24,008</u>	<u>26,243</u>	<u>18,619</u>	<u>16,978</u>
Income from continuing operations	14,621	10,085	7,533	8,317	5,283
Brokerage income	—	—	—	—	1,713
	<u>14,621</u>	<u>10,085</u>	<u>7,533</u>	<u>8,317</u>	<u>6,996</u>
Income taxes	6,865	4,733	3,537	3,917	3,501
	<u>7,756</u>	<u>5,352</u>	<u>3,996</u>	<u>4,400</u>	<u>3,495</u>
Extraordinary items	—	—	1,209	2,961	72
Net income	<u>\$ 7,756</u>	<u>5,352</u>	<u>5,205</u>	<u>7,361</u>	<u>3,567</u>



TOP FROM LEFT:
D.A. Carlson,
D.L. Croteau,
W.G. Holmes,
Senator E.C. Manning,
A.L. Melton

BOTTOM FROM LEFT:
T.C. Melton,
W.C. Willetts,
R.B. Young,
T.A. Zaharko

TOP FROM LEFT: W.P. Daly, D.R. Erickson, W.J. Griffith, S.E. Laird, R.G. Taunton

CENTRE FROM LEFT: F.E. Bishop, R.A. Gibbons, K.O. Lovig, N.A. Park, B.W. Scarrow

BOTTOM FROM LEFT: B.C. Eagar, I.D. MacLeod

Corporate Directory

Directors

D.A. Carlson, P.Eng.
*Chairman, A.V. Carlson
Construction Corp. Ltd., Edmonton*

D.L. Croteau, B. Comm.
*Vice-President
Melcor Homes Ltd.*

W.G. Holmes, C.A.
*Vice-President Finance &
Secretary-Treasurer
Melcor Developments Ltd.*

Senator E.C. Manning, P.C., C.C.
*Chairman, Manning Consultants
Limited, Edmonton*

A.L. Melton, B.Sc., A.L.S.
*Survey Engineer, Shell Canada
Limited, Calgary*

T.C. Melton, B. Comm.
*Chairman & President
Melcor Developments Ltd.*

W.C. Willetts, C.A.
*Company Director
Edmonton, Alberta*

R.B. Young, P.Eng., M.B.A.
*Vice-President,
Melcor Developments Ltd.*

T.A. Zaharko, B. Comm.
*Vice-President, A.E. LePage Melton
Real Estate Ltd., Calgary*

Officers

T.C. Melton, *President*
R.B. Young, *Vice-President*
W.G. Holmes, *Vice-President Finance &
Secretary-Treasurer*

Land Development

W.P. Daly, *Regional Manager, Edmonton*
D.R. Erickson, *Regional Manager,
Calgary*
W.J. Griffith, *Director, Special Projects*
S.E. Laird, *Controller*
R.G. Taunton, *Regional Manager,
Phoenix*

Residential Construction

D.L. Croteau, *Vice-President*
F.E. Bishop, *Regional Manager,
Red Deer*
R.A. Gibbons, *Regional Manager,
Edmonton*
K.O. Lovig, *Secretary-Treasurer*
N.A. Park, *Regional Manager, Calgary*
B.W. Sorrow, *Regional Manager,
Regina*

Investment Properties

B.C. Eagar, *Regional Manager, Calgary*
I.D. MacLeod, *Regional Manager,
Edmonton*

Share Transfer Agents

Royal Trust Company
Edmonton, Toronto

Share Listing

Toronto Stock Exchange

Auditors

Willetts, Macmahon & Company

Corporate Office

900 - 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8

Branch Offices

Edmonton

17204 - 106A Avenue
Edmonton, Alberta T5S 1E6

Calgary

300 - 1422 Kensington Road N.W.
Calgary, Alberta T2N 3P9

Red Deer

2 - 5208 - 53 Avenue
Red Deer, Alberta T4N 5K2

Regina

2032 Rose Street
Regina, Saskatchewan S4P 2A2

Phoenix

7975 N. Hayden Road, Suite C-130
Scottsdale, Arizona 85258



Consolidated Statement of Source and Use of Cash

FOR THE SIX MONTHS ENDED JUNE 30, 1979
(with comparative figures for the six months ended
June 30, 1978)
(Unaudited)

	<u>1979</u>	<u>1978</u>
	— (000) —	
Source of Cash		
Operations	\$ 887	\$ 2,120
Bank Loans	4,346	490
Agreements payable on real estate for development and sale	14,480	4,254
Reduction in agreements receivable on real estate sales	1,821	744
Mortgages and agreements payable on revenue properties	5,445	2,474
Share capital	40	2
Reduction in mortgages receivable	117	79
Reduction in note receivable	252	258
	<u>\$27,388</u>	<u>\$10,421</u>
Use of Cash		
Investment in term deposit	—	1,140
Increase in real estate for development and sales less change in provision for real estate development costs	10,954	2,078
Payments on mortgages and agreements payable on revenue properties	28	41
Funds advanced to joint ventures	110	342
Dividends	776	692
Additions to revenue properties	6,542	2,806
Increase in operating assets	1,813	768
Payments on agreements payable on real estate for development and sale	8,111	2,799
	<u>\$28,334</u>	<u>\$10,666</u>
Decrease in cash	946	245
Bank overdraft beginning of period	671	851
Bank overdraft end of period	<u>\$ 1,617</u>	<u>\$ 1,096</u>



INTERIM REPORT

SIX MONTHS ENDED
JUNE 30, 1979

MELCOR DEVELOPMENTS LTD.

#900 - 10310 Jasper Avenue, Edmonton, Alberta T5J 1Y8
(403) 429-6931

Report to Shareholders

We are pleased to present this report on our operations.

Net income for the six months ended June 30, 1979 was \$1,416,000 or \$.51 per share compared with \$2,816,000 or \$1.02 per share for the same period last year. This interim report may not be indicative of a full year's results as substantial land sales are anticipated in the second half of the year.

During the second quarter there was continued improvement in residential construction profits. We anticipate that this favourable trend will continue.

The land division will market in the third and fourth quarters serviced residential lots in subdivisions in Calgary, Edmonton, Spruce Grove and Leduc. Demand for the lots is good. Purchases in the second quarter were 157 acres in Spruce Grove and 60 acres in Phoenix. Approval has been received for the annexation to the City of Red Deer of 139 acres of land owned by the Company.

We are optimistic that projected land sales will produce satisfactory earnings for the year.

On behalf of the Board of Directors

T. C. Melton
President

August 10, 1979

Consolidated Balance Sheet

JUNE 30, 1979

(with comparative figures at June 30, 1978)

(Unaudited)

ASSETS	1979	1978	LIABILITIES AND EQUITY	1979	1978
	— (000) —			— (000) —	
Agreements receivable on real estate sales	\$ 8,800	\$10,784	Bank Indebtedness	\$ 19,015	\$ 8,596
Note receivable	1,588	2,086	Accounts payable	1,690	1,652
Mortgages receivable	190	361	Income taxes payable	729	1,204
Due from joint ventures	208	—	Due to joint ventures		120
Sundry receivables	720	530	Provision for real estate development costs	15,675	5,100
Real estate for development and sale	81,829	41,880	Agreements payable on land for development and sale	34,532	19,351
Revenue properties	25,064	15,278	Mortgages and agreements payable on revenue properties	18,216	10,268
Other assets	595	1,468	Deferred income taxes	3,452	2,936
				93,309	49,227
			Share capital	2,999	2,959
			Retained earnings	22,686	20,201
				25,685	23,160
	<u>\$118,994</u>	<u>\$72,387</u>		<u>\$118,994</u>	<u>\$72,387</u>

Consolidated Statement of Income

FOR THE SIX MONTHS ENDED JUNE 30, 1979

(with comparative figures for the six months ended June 30, 1978)

(Unaudited)

	1979 (000)		1978 (000)	
	Gross Revenue	Net Income	Gross Revenue	Net Income
By Division				
Residential construction	\$ 7,270	\$ 233	\$ 8,320	\$ 93
Land development	4,266	2,609	11,966	6,266
Revenue properties	914	99	782	111
Other income	131	90	150	120
	12,581	3,031	21,218	6,590
Elimination of interdivision transactions	—	370	1,991	851
	<u>\$12,581</u>	<u>3,401</u>	<u>\$19,227</u>	<u>5,739</u>
Common Costs		713		396
		2,688		5,343
Income Taxes		1,272		2,527
Net Income for the period		<u>\$1,416</u>		<u>\$2,816</u>
Included in the above are the following expenses:				
Interest		\$ 856		\$ 487
Depreciation		38		32
		<u>\$ 894</u>		<u>\$ 519</u>
Earnings per share		<u>\$.51</u>		<u>\$ 1.02</u>

NOTE: Certain 1978 figures have been reclassified to conform with the 1979 presentation.